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Jordan VC Firms Forge Mideast Silicon Valley: William Cohan (1)



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Few Americans would pick Amman, Jordan -- a city of about 2 million in the heart of the war-torn Middle East -- as a vibrant place for entrepreneurs and the venture capitalists who back them.

But there Amman is, ranked as the 10th-best city in the world to launch a tech startup, according to a 2012 list compiled by Rachid Sefrioui, the founder of Finaventures, a California-based venture-capital firm.

Not surprisingly, Sefrioui's list is topped by Palo Alto, California; Los Angeles, Boston, London and New York. These cities have long been hotbeds of venture capitalists and the high-tech entrepreneurs who seek them out, and with good reason.

There are billions of dollars in equity capital to be invested. There is an advanced physical and intellectual infrastructure devoted to matching venture capitalists with entrepreneurs. And there is a 30-year-plus record of success -- and failure -- from which investors can learn the winning combination of a great idea, a receptive marketplace and a gifted management team.

Amman has very few, if any, of these advantages. Jordan is surrounded by strife, has few natural resources -- it has no proven oil reserves and is the fourth-driest country on Earth -- and is among the world's top recipients of U.S. aid on a per-capita basis. The official unemployment rate is 13 percent but few believe it; the conventional wisdom is that half the population is either unemployed or underemployed.

LACK OF CAPITAL

When I visited the country last month as a guest of U.S. Ambassador Stuart E. Jones, the young people I spoke with were palpably frustrated over whether it would be possible for them to have a meaningful career. Leading businessmen I met with lamented the lack of readily available (non-venture) capital in the country, thanks to the aftershocks of the global financial crisis and the uncertainties of the Arab Spring.

Jordanians also believe, with experience as their guide, that government corruption is rampant. The owner of an engineering firm complained to me that the government owed him \$15 million for a completed project at a defense facility. He told me he had walked right up to the finance minister at a government reception and asked him directly why he had not been paid. (The finance minister promised to look into the situation.) The businessman suspects the country might actually be bankrupt. He's not alone. A year ago, Moody's Investors Service changed the outlook to negative on Jordan's Ba2 debt rating.

And yet, somehow, Jordan appears to be thriving as a home to young entrepreneurs. There are at least two groups -- Oasis 500 and Endeavor Jordan, a nonprofit -- that are incubating promising young businessmen. People in the business estimate that there is now around \$300 million in venture funding to be invested. One morning, I met with some of the 40 or so entrepreneurs -- men and women -- that Oasis 500 has backed. I could just as easily have been in Palo Alto.

Among others, there was Lana Karrain, the founder of fakker.me, a website that uses online gaming to match employers with prospective employees; Abdulhameid Grandoka of taltol.com, an online marketplace for artists and graphic designers; and Ala Suleiman of Masmoo3, a company that provides audio books to the Arabic-speaking world. At one point, we had a robust debate about the proposed U.S. laws to combat Internet piracy and whether Facebook Inc. should be paying its users for data rather than just taking it free and capitalizing on it.

MONEY FINDS IDEAS

Amman is no fluke. Sefrioui told me he included it on his top-10 list (ahead of runners-up Madrid and Toronto) in his belief that, on a relative basis, the city has figured out a way to nurture young people's startup dreams despite the seemingly bleak economic environment. He often found that young entrepreneurs in Jordan have no choice but to start their own companies, and that the Internet has enabled that to happen. The Internet doesn't care where you live or whether there is oil in the ground; it rewards those with great ideas for providing people with a better way to get the things they need.

Can Jordan move up in Sefrioui's list? One hurdle is a lingering culture of shame that stigmatizes people who fail in a business venture. There are no bankruptcy laws that make it possible for a businessman to work through financial difficulties with creditors and emerge on the other side, raring to try again.

Jordan is not unique in this regard. Sefrioui told me about three entrepreneurs he met in Paris who received venture funding there but, when their businesses failed, were effectively shut out from trying again. One moved to New York; the other two to San Francisco.

In America, of course, bankruptcy laws help places like Palo Alto thrive. Most venture capitalists in the U.S. understand that backing entrepreneurs is a portfolio game, and not everyone is going to be Mark Zuckerberg. Americans understand the role that failure has in success. When Amman gets that message, too, watch out, Palo Alto.

(William D. Cohan, a former investment banker and the author of "Money and Power: How Goldman Sachs Came to Rule the World," is a Bloomberg View columnist. The opinions expressed are his own.)

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